In November 2014, the JLBC revised the FY 2015 General Fund Estimate and adopted the FY 2016 General Fund Estimate. At the time the revenue estimating group expected the state’s economy to grow at a modest pace and the revenues to follow suit. The economy has generally performed as we anticipated. Employment did slow slightly more than expected in the closing months of 2014, but we believe growth will improve going forward and so our outlook for modest growth in the state’s economy remains largely intact.

While our outlook for the economy has not significantly changed since November, transfers to the General Fund have exceeded our expectations in FY 2015. Through February, transfers to the FY 2015 General Fund were above the Sine Die estimate by $72.5 million.

At your request, the revenue estimating group met to re-examine the estimate in light of the collections to-date. As is our long-held practice, we discussed each revenue source individually. We attempted to take into account not only the economic trends, but trends within tax collections as well as tax law changes. I will share some of our major points of discussion.

We noted that while sales tax transfers to the General Fund through February were up $24.6 million from the revised estimate, almost half of this average occurred in the month of February. We recognized that the Department of Transportation will request a $15-$20 million diversion from sales tax collections during the current fiscal year in accordance with existing law. This adjustment means that while sales tax transfers to the General Fund through February were up 7.5 percent compared to the same period a year ago, the growth rate in the remaining months almost certainly will be significantly lower. In light of these and other factors, we set the consensus revised estimate for transfers to the FY 2015 General Fund from sales tax at $2,073.0 million or 6.0 percent above the actual FY 2014 transfers. If realized, this increase would be the strongest growth in transfers from sales tax collections since FY 2006 when the state was rebuilding after Hurricane Katrina.

In discussing transfers from individual income taxes, we noted that through February collections were below the revised estimate for this revenue source by less than $1.0 million. In other words, we are essentially making our estimate. In looking toward the final four months of FY 2015 we noted that in June 2014 the Department of Revenue (DOR) transferred $30 million from the income tax refund account to the General Fund. DOR transferred these funds because refunds were below expectations and DOR wanted to report the revenue in the same fiscal year in which it was collected. As a result, June 2014 transfers were artificially inflated which impacts the FY 2015 estimate. While transfers to the General Fund from individual income taxes through February 2015 were up 8.9 percent over one year ago, the remaining months will very likely reflect significantly lower growth. The revenue estimating group’s consensus revised estimate for income tax transfers to the FY 2015 General Fund is $1,749.2 million or 4.9 percent above the FY 2014 transfers.
In FY 2014, transfers from corporate taxes grew 29.2 percent. FY 2014 corporate tax transfers relied heavily on “large payments,” defined as checks for $1 million or more. In March 2014 alone, the DOR transferred $100 million from “large payments”. Because this increase was so large and not supported by growth in the economy, we expected a decline in FY 2015 transfers from corporate taxes. Accordingly, our November revised estimate reflected a 3.8 percent decline in corporate tax transfers. Because FY 2015 has reflected a substantial decline in revenue from large payments, the group is very cautious about corporate tax transfers going forward. We are, however, encouraged that so far in March 2015 DOR has processed over $80 million in large payments. While the potential for a substantial correction in corporate tax transfers remains, this adjustment will not be as large as initially feared. In light of the collections to-date, we are recommending a revised estimate for corporate tax transfers to the FY 2015 General Fund of $691.2 million or 2.1 percent growth over the FY 2014 actual transfers.

The revenue estimating group also recognized that the FY 2015 General Fund had already received $20 million from Attorney General settlements and that an additional $30 million is expected before the end of FY 2015.

We discussed all of these issues and more as we carefully examined each General Fund revenue source individually. Our consensus recommendation today is that the JLBC raise the FY 2015 General Fund estimate to $5,565.7 million. This revision reflects 3.0 percent growth in the actual FY 2014 General Fund and increases the November revised estimate by $101.6 million and the Sine Die estimate by $105.9 million.

In discussing the FY 2016 estimate we remain concerned that revenue collections continues to outpace the economy. We are also concerned that existing legislation has the potential to reduce corporate tax transfers by as much as $54 million in FY 2016. While DOR estimates often reflect maximum exposure to the state, we expect that much of this reduction will occur. Taking these issues into account we recommend that the JLBC raise the FY 2016 General Fund estimate to $5,660.1 million or 1.7% above our recommended revised FY 2015 General Fund Estimate. This represents an increase of $30.0 million over the estimate adopted in November 2014.